

Idaho Economic Forecast

C.L. "Butch" Otter, Governor

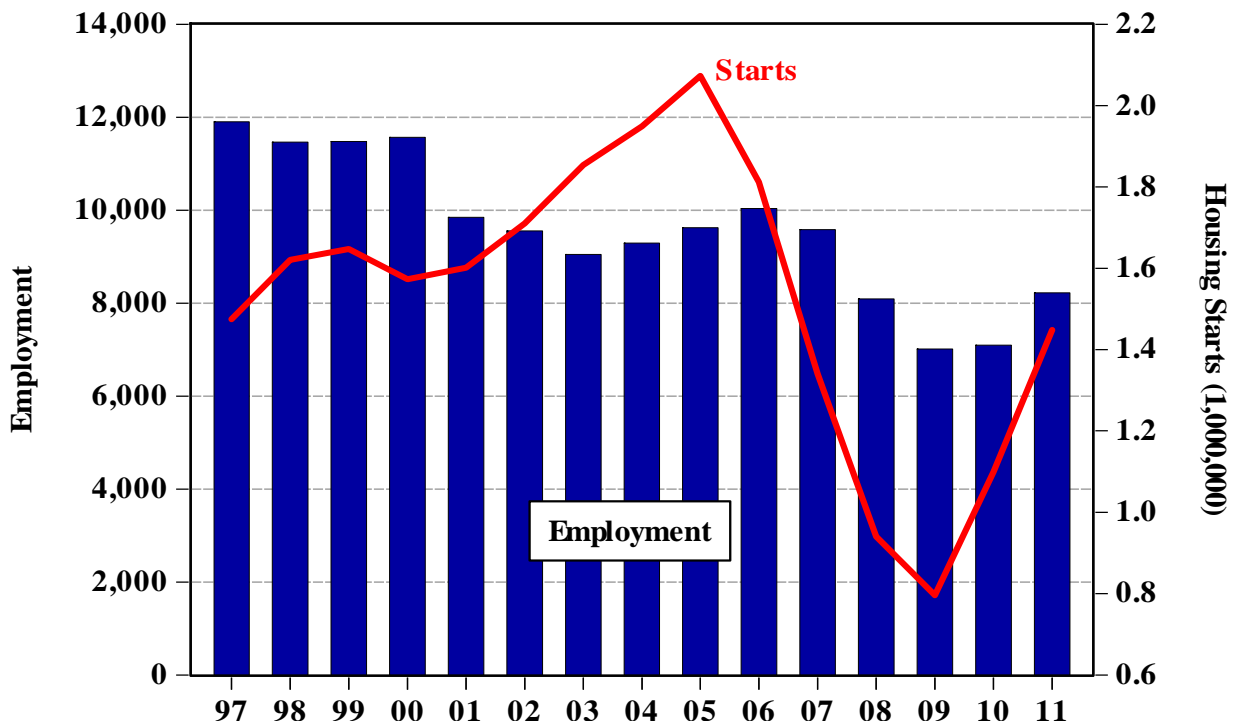
Division of Financial Management

Vol. XXX, No. 4
October 2008

ISSN 8756-1840

- Forecast 2008-2011
- Oil Prices and Inflation
- Alternative Forecasts

Idaho Wood Product Employment and U.S. Housing Starts



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**IDAHO
ECONOMIC
FORECAST
2008 - 2011**

State of Idaho
C.L. “BUTCH” OTTER
Governor

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10-08/385/010200-180-4001

PREFACE

Idaho's economy continues to grow and evolve as it enters the 21st Century. The 1980s was a decade of stop-and-start economic performance. However, it also ushered in one of the longest expansions in the state's history. Since 1987, nonfarm employment has expanded every year and has consistently placed Idaho among the top ten fastest growing states in the nation. The 1990s saw a flood of new residents move into the state, causing the population to expand by an astounding 29% from 1990 to 2000. Over this period Idaho personal income nearly doubled. Much of the current expansion results from ongoing structural changes in Idaho's economy.

One of the biggest changes is the rise of the state's high-technology sector. Virtually nonexistent in the 1970s, this sector achieved critical mass in the 1990s to become the state's largest manufacturing employer. The growth of industry giants, such as Micron Technology and Hewlett-Packard, as well as the emergence and expansion of smaller companies, pushed payrolls above even the most optimistic forecasts made in the 1980s. The state's trade sector has also been going through a transformation. The last decade witnessed an influx of national "big box" merchandisers. During this same time, Idaho merchants successfully reached beyond the state's borders. Several regional shopping centers were established that serve locals, as well as attract shoppers from other states and Canada. Visitors fueled the surge in tourism that also benefited trade. Like its national counterpart, the service sector accounts for most of the nonfarm jobs in Idaho. Tourism has also been a boon to the service industry. While traditional factors, such as increasing discretionary income, continue to fuel the demand for services, other influences have emerged. For example, the use of temporary employees in manufacturing has bolstered business services employment. Idaho's outstanding work force has been a major factor in attracting call centers, back office operations, and credit card companies.

While many changes are taking place today, traditional resource industries still play a major role in Idaho's economy. Indeed, the state's mining, agriculture, and timber sectors all experienced lulls in the late 1990s. While displaying more resilience to downturns than in the past, these industries are not totally immune from business-cycle effects. The continuing dependence on natural resources will bring a host of challenges to Idaho.

Other factors that are external to the state's economy will also present challenges to decision makers. Public policy decisions made in Washington, D.C. affect resource industry and federal installations such as the Idaho National Laboratory and the Mountain Home Air Force Base. Finding balanced and acceptable solutions to endangered and threatened species issues and timber supply issues are of major economic significance.

In order to deal effectively with these challenges, public and private decisions need to be made with a thorough understanding of the structure of the state's economy. It is to this end that the *Idaho Economic Forecast* is directed.

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INTRODUCTION

The national forecast presented in this publication is the October 2008 Global Insight baseline forecast of the U.S. economy. The previous *Idaho Economic Forecast* is based on the July 2008 Global Insight baseline national forecast.

The national housing slump is expected to get worse before it gets better, which will have a negative impact on Idaho's logging and wood products sector. The U.S. housing starts slide began in the second quarter of 2006, and it has fallen in every quarter except one since then. Unfortunately, it is expected to continue dropping through the first half of next year and hit bottom with 738,000 starts. It should start growing again in the second half of 2009, but the recovery is not likely to be strong enough to return housing starts to its pre-slump peak of 2.1 million units. Idaho logging and wood products employment benefited from the mid-decade boost in housing starts, but will decline as housing starts stall. On an annual basis, Idaho logging and wood products employment is forecast to drop about 15% this year and 13% next before advancing 1.2% in 2010 and 15.8% in 2011.

FEATURE

The feature article, "Oil Prices and Inflation," was written by Michele Cavallo. It examines the impact of rising oil prices on core inflation over the last decade for four economies: the U.S., the euro area, Canada, and the U.K. This study finds some evidence that rising oil prices have had a positive and significant effect on the euro area, but no systematic evidence that the rising oil prices have had an impact on core inflation in the three other countries. The author is an economist with the Federal Reserve Bank of San Francisco.

THE FORECAST

Alternative assumptions concerning future movements of key economic variables can lead to major variations in national and/or regional outlooks. Global Insight examines the effects of different economic scenarios, including the potential impacts of recessions, higher inflation, and future Federal Reserve Board decisions. Alternative Idaho economic forecasts were developed under different policy and growth scenarios at the national level. These forecasts are included in this report.

Historical and forecast data for Idaho and the U.S. are presented in the tables in the middle section of this report. Detail is provided for every year from 1994 to 2011 and for every quarter from 2006 through 2011. The solution of the Idaho Economic Model (IEM) for this forecast begins with the third quarter of 2008.

Descriptions of the Global Insight U.S. Macroeconomic Model and the IEM are provided in the Appendix. Equations of the IEM and variable definitions are listed in the last pages of this publication.

CHANGES

The Idaho Department of Labor provides monthly historical employment data that are seasonally adjusted and converted to quarterly frequencies by the Idaho Division of Financial Management (DFM). These adjusted data include final employment numbers through the second quarter of 2008 and estimates for the third quarter of this year. These data show there were 1,800 fewer jobs in the second quarter of 2008 than had been reported in the July 2008 *Idaho Economic Forecast* and there were 4,100 fewer jobs in this year's third quarter than had been earlier forecast.

The tables in this forecast include the U.S. Bureau of Economic Analysis' (BEA) September 18, 2008 estimates of Idaho quarterly personal income through the second quarter of 2008. The next round of Idaho quarterly personal income estimates is scheduled to be published on December 18, 2008 and will run through the third quarter of 2008.

Another change to the forecast was most of the stochastic equations in the model were updated to reflect the availability of additional data. Also, the structural forms for several of these equations were reviewed in detail and changed when doing so improved their performances.

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